

# ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

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## ARIZONA DEPARTMENT OF REVENUE MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

## THANK YOU TAX PROFESSIONALS

The department would like to extend a special thank you to the electronic return tax professional community for making this another successful "paperless" tax season. Due to your commitment to the e-File program, the number of paperless returns increase by nearly 20%. Another increase was noted in the number of direct deposit of refunds. More than 200,000 taxpayers took advantage of receiving their refund faster when you, the tax professional, encourage your client to use the direct deposit option. Thank You!

We would also like to thank you for taking the time out of your busy schedule to respond to our recent survey regarding our e-File program. The results are in and you rated the direct deposit as the most improved feature of our program. The rating for the direct deposit option was 4.8 on a 5-point scale. Coming in a close second was the

newest feature offered by DOR: the self selected PIN option. On the 5-point scale you rated this option 4.6. In the same respect, you were not afraid to let us know when improvements are needed in our program. The ratings indicate that we can improve our communications, marketing, and our technical manual. We appreciate your feedback and we will use it to improve our e-file products and services.

If you are not already preparing and transmitting your clients' returns electronically, checkout our website at: [www.revenue.state.az.us/](http://www.revenue.state.az.us/) electronic services to see how easy it is to get started. Or, join us at the IRS Nationwide Tax Forum in Reno, NV, September 17-19, where we can help you join the program and answer your questions. Log on to [www.irs.gov](http://www.irs.gov) for details on this event.

## REENGINEERING DOR

The Departments reengineering project, is proceeding through the procurement process slowly but steadily. We can report that the proposals from our vendors have passed an important hurdle in the evaluation process. ITAC, the Information Technology Advisory

Committee, has given its blessing to the plans being evaluated from our vendors. This group has oversight responsibility for all IT projects over \$1 million is comprised of individuals outside of state government with expertise in IT projects.

# \*\*\***REMINDER**\*\*\*

## FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your  
July 2002 TPT return no later than  
August 26, 2002 or deliver to DOR no later  
than August 29, 2002.**

## MAY SUMMARY OF GENERAL FUND REVENUES

|   | <u>May 2002</u> | <u>Fiscal Year<br/>Total</u> |
|---|-----------------|------------------------------|
| <b>Individual Income Tax</b>                                |                 |                              |
| Net Collections   | \$51,791,494    | \$1,545,114,803              |
| Percent Change *  | (48.5%)         | (10.3%)                      |
| <b>Corporate Income Tax</b>                                 |                 |                              |
| Net Collections   | \$12,902,767    | \$283,960,737                |
| Percent Change *  | (38.0%)         | (40.1%)                      |
| <b>Transaction Privilege,<br/>Severance &amp; Use Taxes</b> |                 |                              |
| Net Collections   | \$251,814,390   | \$2,722,539,552              |
| Percent Change *  | 0.1%            | (0.3%)                       |
| <b>Total Big Three Tax Types</b>                            |                 |                              |
| Net Collections   | \$316,508,651   | \$4,551,615,092              |
| Percent Change *  | 15.7%           | (7.6%)                       |

( ) Decrease from same month last year.

\* Percent change from same month last year.

## Individual Income Tax *Individual Income Tax Receipts*

|                        | <u>May 2002</u>                  | <u>May 2001</u>        | <u>%</u>      |
|------------------------|----------------------------------|------------------------|---------------|
| Gross Collections      | \$22,182,506                     | \$104,391,564          | (78.8)        |
| Withholding            | 195,678,588                      | 210,119,840            | (6.9)         |
| Refunds                | (130,913,219)                    | (179,858,801)          | (27.6)        |
| Urban Rev Sharing      | (35,156,381)                     | (33,037,720)           | 6.4           |
| <b>Net Collections</b> | <b>\$51,791,494</b>              | <b>\$101,614,883</b>   | <b>(48.5)</b> |
| <br>                   |                                  |                        |               |
|                        | <u>Fiscal Year Total (01/02)</u> | <u>(00/01)</u>         | <u>%</u>      |
| Gross Collections      | \$624,286,796                    | \$768,012,013          | (18.7)        |
| Withholding            | 2,134,952,670                    | 2,165,878,519          | (1.4)         |
| Refunds                | (827,404,472)                    | (846,660,699)          | 2.4           |
| Urban Rev Sharing      | (386,720,191)                    | (363,414,920)          | 6.4           |
| <b>Net Collections</b> | <b>\$1,545,114,803</b>           | <b>\$1,723,814,913</b> | <b>(10.3)</b> |

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. In May \$1,201,531 in alternative fuel vehicle credits were processed. After offsetting \$185,889 in tax liability, refunds for this credit totaled \$1,015,642. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit. Additional refunds were paid out of corporate income tax.

## TAX CALENDAR

AUGUST 2002

| Due<br>Date |   | For Period<br>Ending |
|-------------|---|----------------------|
| 15          | Income Tax Returns:                                       | 4/30/02              |
|             | Form 120: Corporation                                     |                      |
|             | Form 140: Individual                                      |                      |
|             | Form 141: Fiduciary                                       |                      |
|             | Form 165: Partnership                                     |                      |
| 15          | Form 120: Corporation with<br>Automatic Extension         | 10/31/01             |
| 15          | Form 120S: S Corporation                                  | 5/31/02              |
| 15          | Form 99: Exempt Organization<br>Annual Information Return |                      |
|             | Form 99T: Exempt Organization                             | 3/31/02              |
| 15          | Form 120ES: Estimated Tax Payment,<br>Corporation         |                      |
|             | First Installment   | 4/30/03              |
|             | Second Installment  | 2/28/03              |
|             | Third Installment   | 11/30/02             |
|             | Fourth Installment  | 8/31/02              |
| 20          | Form TPT-1: Transaction Privilege Tax:                    |                      |
|             | July Monthly Filers                                       | 7/31/02              |
| 20          | Bingo: Financial Reports                                  | 7/31/02              |
| 20          | Luxury Tax: Various Forms                                 | 7/31/02              |
| 26          | EFT Form TPT-1 and Payment:                               |                      |
|             | Transaction Privilege Tax:                                |                      |
|             | July Monthly Filers                                       | 7/31/02              |

### Withholding Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from:  
**Tony Manzo or Diane Sosinski at (602) 542-4672.**

## **ALTERNATIVE FUEL VEHICLE REPORT FOR JUNE, 2002**

In accordance with S.B. 1004, Section 37 (A), the Director of the Department of Revenue shall report the following amounts related to:

- The aggregate dollar amount of alternative fuel related credits claimed under sections 43-1086, 43-1086.01, 43-1086.02, 43-1174, 43-1174.01 and 43-1174.02, Arizona Revised Statutes, on income tax returns during the preceding calendar month.

For the period of June 1 through June 30, 2002, the department received 110 individual income tax returns with claims for alternative fuel related credits totaling \$1.5 million. A total of 5,524 individual income tax returns with claims have been received from January 2001 through June 2002, totaling \$102.0 million in credit. The department also received 5 corporate income tax returns in June with claims for alternative fuel related credits totaling \$278,000. A total of 196 corporate income tax returns with claims have been received from January 2001 through June 2002, totaling \$18.2 million in credit.

- The dollar amount of verified credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period June 1 through June 30, 2002, the department issued 37 individual income tax refunds for alternative fuel related credits. There was \$609,447 in AFV credits on these returns. After offsetting \$92,895 in liability, \$516,552 was refunded. The department issued 1 corporate refund for alternative fuel related credits. There was \$73,900 in AFV credit on this return. After offsetting \$50 in

liability, \$73,850 was refunded.

Combining the corporate and individual income tax return amounts results in \$590,402 that should be transferred from the Budget Stabilization Fund into the General Fund for June 2002. In last fiscal year, \$66,360,441 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$33,277,654 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel vehicle credits at \$99,638,095.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$120.2 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year. Through June 2002, 5,720 (corporate and individual) claims have been received. Those claims reviewed include 5,515 claims for 6,121 vehicles, claims for 30 refueling stations and claims for 647 refueling apparatuses. (Claims that have not yet been reviewed are not included in this count.) While most returns for 2000 filers have been received, there may be additional claims made through late filers and amended returns. Also, there are taxpayers who are first qualifying for a credit on their 2001 tax returns. At this time, the department has no independent means of estimating the amount yet to be claimed.

If you have any questions, please contact Anthony Forschino at (602) 542-4672.

## LEGISLATIVE SUMMARY 2002

The 2002 Legislative Summary provides a brief summary of the tax-related bills that were enacted by the Arizona State Legislature and were approved by the Governor.

Over the next few months the TaxNews will feature Legislative Summaries by tax type.

This month: Income Tax, The general effective date is August 22, 2002

### **HB 2088 (income tax subtraction; dividends; repeal) - Chapter 50 RFE**

HB 2088 eliminates the corporate income tax subtraction for dividend income received from Arizona corporations. The Department of Revenue is allowed to disclose the names of corporations, the dividends of which qualified for the subtraction, until July 1, 2004. The bill also clarifies that the Department of Revenue shall release confidential information to the Attorney General for the purpose of enforcing the Tobacco Master Tax Settlement.

The bill is effective retroactively to taxable years beginning from and after December 31, 2001.

### **HB 2181 (NOW: enterprise; military reuse; tax credits) - Chapter 237 RFE**

HB 2181 provides modifications to the enterprise zone program by narrowing definitions, capping the amount of tax credits, increasing reporting requirements and assuring that double credits cannot be taken when a business is in an enterprise zone and another zone.

#### **Enterprise Zone Premium and Income Tax Credit Changes**

- Clarifies and narrows the definitions for the enterprise zone program of retail, retail activities and assigned to retail. The definitions refer to allowable limited retail activity by a manufacturer in an enterprise zone. The definition of zone location also clarifies and limits manufacturers to a single location within a zone. If a business has multiple locations in a zone, each location must qualify.
- Limits the number of qualified employment positions that are eligible for the premium or income tax credits under the enterprise zone program. The

qualified business will calculate eligible employees as follows but in no case will the number exceed 200 positions. The calculation for eligible employees is the lesser of: the total number of filled qualified employment positions created or the difference between the average number of full time employees during the current tax year and the average number of full time employees during the immediately preceding tax year.

- Clarifies current procedures for substitution of employees, ensuring that replacement employees meet the original criteria.
- Clarifies that the current requirement for 35% of the net new eligible employees live in the enterprise zone applies to all three years in which a credit is claimed.
- Requires that an eligible business cannot take credits for the second and third year unless they have taken credit for an employee in the first year of employment. An employee must have been employed at least in the last 90 days of the tax year for the position to qualify for the credit. To qualify for the credit, the business must notify the Department of Commerce within six months or earlier if a tax return is due.
- Stipulates requirements for continuing the credits when an ownership change takes place through purchase, reorganization, stock purchase or merger. First year credits can only be claimed for qualified employment positions that it created and filled after the purchase or reorganization. Second and third year credits can be claimed if the original criteria continues to be met.
- Requires timely reports to the Department of Revenue or the Department of Insurance, as applicable, as well as the Department of Commerce. A failure to submit a timely report disqualifies the taxpayer from the credits.
- Requires increased detailed information on

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full time employment positions that are eligible for the credit. Also allows the Department of Commerce to make site visits if necessary.

- Clarifies that a credit cannot be taken in an enterprise zone if a credit is taken for the same employee in a military reuse zone or defense-restructuring program.

### **Enterprise Zone Property Reclassification Changes**

- Excludes electric generating plants from the definition of manufacturer for the purpose of reclassification under the enterprise zone program.
- Increases reporting requirements to the Department of Commerce for certification of the property tax reclassification. The Department of Commerce will notify the Department of Revenue or the Department of Insurance, whichever is appropriate, if a business fails to maintain eligibility.
- Requires annual certification for the property reclassification, even though the original certification is for five years. The reclassification is allowed to continue even if the business grows beyond the original size limits for a small business. However, any small businesses originally certified for a ten-year period (prior to 1996), will lose eligibility if size limits are exceeded or the business is no longer independently owned and operated.
- For property that qualifies for reclassification under the enterprise zone program, the reclassification cannot continue under the military reuse zone program.

### **Miscellaneous Provisions**

- Requires that the designation of a military reuse zone must have a runway that is at least 8,000 feet long at the time the military facility was closed.
- Clarifies that a minority and woman owned business must be independently owned and operated.
- Makes technical and conforming changes.
- Contains a Proposition 108 clause requiring two-thirds vote for passage.

The bill is effective retroactively to taxable years beginning from and after December 31, 2001.

### **HB 2186 (income tax credit review) - Chapter 238**

HB 2186 creates the ten member statutory Joint Legislative Income Tax Credit Review Committee. There are five legislative members appointed from each chamber. The committee is to determine the original purpose of existing tax credits and establish a standard for evaluating and measuring the success or failure of tax credits. The committee must review the individual and corporate income tax credits listed in the bill. The committee is to use the Joint Legislative Budget Committee staff and is permitted to use the staff of the Department of Revenue and Legislative Council for assistance. The committee is to determine whether credits should be amended or repealed and is to report to the President, Speaker and Governor by December 15 of the year that the committee reviews the credit.

The income tax credit review schedule is as follows

2002 Recycling Equipment (§ 43-1076)  
Employment by qualified defense contractor (§ 43-1077 and § 43-1165)  
Property taxes paid for qualified defense contractor (§ 43-1078 and § 43-1166)  
Employment in military reuse zone (§ 43-1079 and § 43-1167)  
Construction cost for qualified environmental technology facility (§ 43-1080 and § 43-1169)  
2003 Research and Development activities (§ 43-1074.01 and § 43-1168)  
Coal consumed in electric generating power (§ 43-1081 and § 43-1178)  
Underground storage tank corrective action costs (§ 43-1085 and § 43-1173)  
Pollution control equipment (§ 43-1170)  
2004 Agriculture pollution control devices (§ 43-1081.01 and § 43-1170.01)  
Solar energy devices (§ 43-1083)  
Agriculture water conservation system (§ 43-1084)  
2005 Employment of Temporary Assistance for Needy Families (TANF) recipients (§ 43-1087 and § 43-1175)  
Contributions to charitable organizations

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that provide assistance to the working poor (§ 43-1088) Donations of motor vehicles to wheels to work program (§ 43-1090.01 and § 43-1177)

2006 Family tax credit (§ 43-1073) Private school tuition organization (§ 43-1089) Public school extra curricular activity fee (§43-1089.01) Construction materials incorporated into qualifying facilities (§ 43-1089.02) Solar hot water heater plumbing stub outs and electric vehicle recharge outlets installed in houses constructed by taxpayer (§ 43-1176 and § 43-1090) Donation of school site (§ 43-1181)

The bill also provides that any new individual or corporate income tax credit enacted by the legislature shall include a review by the committee in the fifth full calendar year following the date the credit is enacted.

The bill is effective on August 22, 2001.

**HB 2616 (tax credit; increased taxes; prisoners) - Chapter 280 RFE/RFEIR**

HB 2616 provides that for taxable years beginning from and after December 31, 2002 a person who is sentenced for at least sixty days of the taxable year to the custody of the federal Bureau of Prisons, the state Department of Corrections or a county jail is not eligible to claim the state income tax credit in mitigation of increases transaction privilege tax and use tax. The credit is in mitigation of the six-tenths of a cent increase in the transaction privilege tax and use tax for education approved by voters at the 2000 general election.

The bill is effective on August 22, 2001.

**HB 2712 (IRC conformity; revenue sharing) - Chapter 344**

HB 2712 conforms Arizona tax statutes to the current United States Internal Revenue Code (IRC) including provisions relating to the Economic Growth and Tax Relief Reconciliation Act of 2001, the Fallen Hero Survivor Benefit Fairness Act of 2001 and portions of the Job Creation and Worker

Assistance Act of 2002.

The federal government passed three acts with provisions that have an impact on Arizona tax liability. On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001, which included significant changes to the estate and generation-skipping transfer tax. Arizona's estate tax revenue is based on the state's share of the maximum credit allowed by the federal estate tax laws. The federal provisions in this Act will phase-out and eventually repeal the federal state death tax credit beginning in tax year 2002.

The second Act is the Fallen Hero Survivor Benefit Fairness Act of 2001, signed into law on June 5, 2001. This act amends the Taxpayer Relief Act of 1997 to extend to survivors of public safety officers killed in the line of duty before December 31, 1996, the same tax benefits available to the survivors of officers killed after such date.

The third act was the Job Creation and Workers Assistance Act of 2002, which was signed into law on March 9, 2002. This act provided for special accelerated depreciation for businesses that purchase equipment between September 11, 2001 through September 11, 2004. This bill provides for immediate conformity of this act, except for the special depreciation, which is phased-in on a delayed basis.

In addition, the bill provides changes to the state's Urban Revenue Sharing (URS) program for 15% to 14.8% for fiscal year 2002-03 and fiscal year 2003-04.

For the purposes of computing income tax, for tax year 2002 the IRC means the IRC in effect on March 9, 2002. The sections of the bill concerning the special depreciation allowance are made retroactive to taxable years beginning from and after December 31, 1999.

## **RELIEF FOR VICTIMS OF RODEO-CHEDESKI FIRE**

The State of Arizona is giving emergency tax relief to victims of the Rodeo-Chediski fire. The Department of Revenue will continuously monitor the evolving situation and add affected areas and grant relief as warranted.

### **TRANSACTION PRIVILEGE TAX**

A 30-day extension of time to file and pay transaction privilege taxes due in June is granted to taxpayers with their principal place of business in zip code areas directly affected by the fire. These areas are listed at the end of this announcement. Taxpayers should write "Rodeo-Chediski Fire" at the top of their returns.

### **WITHHOLDING TAX**

Arizona will follow any relief granted by the IRS for extensions of time to file and pay withholding taxes. Taxpayers should write "Rodeo-Chediski Fire" at the top of their returns.

### **CORPORATE INCOME TAXES**

A 30-day extension of time to file and pay corporate income taxes or estimated taxes due from June 20, 2002 to July 15, 2002 is granted to taxpayers with their principal place of business in the zip code areas directly affected by the fire. Taxpayers should write "Rodeo-Chediski Fire" at the top of their returns.

### **ESTATE TAX**

Arizona will follow any relief granted by the IRS for extensions of time to file and pay estate taxes. Taxpayers should write "Rodeo-Chediski Fire" at the top of their returns.

### **APPEALS OF TAX ASSESSMENTS**

Taxpayers facing the expiration of the 45-day limit to appeal a business tax assessment or refund denial or the 90-day limit to appeal an individual income tax

assessment or refund denial should send a letter giving their name, taxpayer identification number, and stating they are requesting an extension of time to appeal their assessment because of the Rodeo-Chediski fire. The letter must be postmarked before the time to appeal the assessment expires. Send the letter to:

Arizona Department of Revenue  
Hearing Office  
1600 West Monroe  
Phoenix, Arizona 85007

### **INDIVIDUALS INVOLVED IN FIGHTING THE FIRE**

Individuals who by reasons of their employment, or official volunteers, are directly involved in fighting the Rodeo-Chediski fire or in providing relief to victims in areas directly affected by the fire are also eligible for the tax relief provided above. When they file their returns, these individuals should write "Rodeo-Chediski Fire" at the top of the return.

### **COLLECTIONS ACTIVITIES**

Collection activities including liens and levies have been temporarily suspended for persons in the zip code areas affected by the fire.

### **ADDITIONAL INFORMATION**

If you are an affected taxpayer and are not covered by this announcement, you may call:

Taxpayer Information and Assistance  
Maricopa County 602-255-3381  
Out-of-state 602-255-3381  
In-state (outside Maricopa County)  
1-800-352-4090

Zip Code Areas Directly Affected by the Fire 85934, 85901, 85923, 85933, 85928, 85931, 85911, 85901, 85935, 85929, 85902. Additional zip codes may be added in the near future.



## **Unclaimed Property Reports Due November 1, 2002**

### **1 year dormancy**

- ♦ Payroll checks/Wages/Commissions
- ♦ Government/Courts.
- ♦ Safe Deposit Boxes.
- ♦ Dissolution of Business.

### **2 year dormancy**

Utility Deposits.

### **3 year dormancy**

- ♦ Stock or other equity interest in a business association or financial organization.
- ♦ IRA.

### **5 year dormancy**

- ♦ Property held by Fiduciaries.
- ♦ Principal on a debt.
- ♦ Savings Accounts, Checking Accounts, Official Checks.

- ♦ Credits owed to a customer as a result of a retail transaction.
- ♦ Amount owed by an insurer on a life or endowment insurance policy.
- ♦ Cashier checks.
- ♦ All other property.

The dormancy periods depends on the property type. Please check the Arizona Revised Statute Chapter 3 section 44-302. Questions call 602-364-0380.